Financial Consumer Agency of Canada | Agence de la consommation en matière financière du Canada

# EMPOWERING Consumers
# PROMOTING Compliance

Financial Consumer Agency of Canada

Annual Report 2008-2009

# WELCOME to Our Annual Report 2008–2009

**CANADIAN FINANCIAL CONSUMERS** are the driving force for everything we do at the Financial Consumer Agency of Canada (FCAC). Since our creation in 2001, we have been working hard to **PROTECT THEIR INTERESTS** and **MEET THEIR INFORMATION NEEDS**.

# OUR VISION

To **EMPOWER** Canadian financial consumers

and **PROMOTE** consumer-centred compliance

among federally regulated financial institutions

Canada

## About this report

Our *Annual Report* covers the Financial Consumer Agency of Canada's (FCAC) initiatives and results during the past fiscal year, April 1, 2008–March 31, 2009. All references to 2008–2009 in this report mean our fiscal year.

A key change this year: in the past, we published our *Annual Report* and *Performance Report* as two separate documents. We have now combined information from the two into this *Annual Report*, making it more convenient for our stakeholders to have one condensed, central document about FCAC's activities over the past year.

All references to "financial institutions" mean federally regulated financial institutions, which fall under FCAC's regulatory jurisdiction. These include federally regulated banks, trust and loans companies, insurance companies and retail associations. All references to "consumer provisions" mean consumer-oriented laws and regulations found in various acts that apply to federally regulated financial institutions.

# Inside


**Message from the Commissioner** **4**

**Who We Are** **6**

**What We Do** **10**

Compliance Supervision and Enforcement Program 10

Consumer Information and Development of Financial Skills Program 14

Consumer Education program 16

Financial Literacy program 19

Internal Services Program 22

**The Numbers** **24**

Number and nature of complaints for non-compliance related matters 24

Number and nature of complaints for compliance-related matters 25

Internal audits and evaluations 26

Performance Scorecards 27

Compliance program 27

Consumer Education program 28

Financial Literacy program 31

Financial statements 32

**How to Reach Us** **58**

# Message from the Commissioner

*Knowledge is power, and even a little financial know-how can go a very long way.*

Ignorance is bliss? That famous phrase from 18th century poet Thomas Gray truly doesn't apply to today's consumers, who must navigate an often confusing array of sophisticated financial offerings in order to make smart decisions for their futures.

We at the Financial Consumer Agency of Canada prefer another centuries-old and well-tested maxim: "knowledge is power." When it comes to making decisions about financial matters, we're steadfast in our belief that the more information consumers have at their disposal, the better, more informed choices they will make.

## Our progress in 2008–2009

If there ever was a time to prove the importance of our role — providing financial education to consumers — it has certainly been in the past year. Against a backdrop of economic upheaval and uncertainty, Canadians have become more conscious of their finances. They are now thinking twice about their financial decisions in order to become savvier with their money.

And we are dedicated to playing a vital, national part in offering and promoting good financial information for them. In my view, it's about *empowering consumers*, and our two mandates at FCAC dovetail to achieve that. One, we ensure financial institutions disclose information, according to their regulatory obligations. This is our compliance mandate. Two, we help financial consumers understand information — not just financial topics but also their rights and responsibilities. This is our education mandate. Information out. Information in. We made great progress on both these fronts in 2008–2009.

## Financial literacy: a top priority

Financial literacy is a top priority for our Agency and an issue that I am deeply passionate about. It's key to empowering and engaging consumers in the financial marketplace. Our attention last year was on youth. For instance,

- we unveiled a groundbreaking online curriculum called *The City*, a virtual world where young people can explore financial topics such as budgeting and credit without the risks of real-world financial ruin. The initiative has been very well received by students and teachers.
- we launched a dynamic new Web portal called *The Money Belt*, an electronic gateway to financial learning for all Canadians, with a special focus on people aged 15–29.
- we hosted a second national symposium on financial literacy, which generated a wealth of new and constructive ideas for building on strides we have made to date.

## Modernizing our compliance processes

At the same time, we remained vigilant on the compliance front. Generally, financial institutions delivered on their consumer-related commitments and obligations. I'm pleased with the industry's efforts and cooperation, particularly during a time of unprecedented upheaval in global financial markets.

Internally, we made notable improvements to how we supervise and examine financial institutions. Overhauling the compliance framework has been a serious initiative on our agenda. We consulted with the industry on this last year and began detailing the changes we want to make; this work will continue in 2009. Our goal: creating a world-class regime for consumer protection.

## Working together for greater impact

A spirit of collaboration is fundamental to achieving results at FCAC. We partner with community groups to reach Canadians and work together with financial institutions to build and maintain a strong consumer protection framework. Our financial literacy strategy is a perfect example of collective action. We know it's not a quick fix and FCAC cannot drive change in isolation, so we've teamed up with a broad range of players spanning the country to find and deliver innovative solutions.

## What to expect in 2009-2010

2008–2009 was my first full year as Commissioner, and I'm proud of our accomplishments. But this is only the beginning. Empowering consumers is an ongoing journey and there is still much to be done. This past year, we put forth a new strategic vision and priorities to guide us over the next five years. For instance, we're expanding our educational programs to connect with even more Canadians, including taking our Financial Literacy Program beyond the current target audience of youth. And armed with a more efficient, robust compliance framework, we'll ensure financial institution compliance remains strong.

## Employees and partners making an impact

Our achievements, ultimately, stem from the wonderful team in FCAC. I'm struck by their enthusiasm, pride and commitment to serving Canadians, and I'd like to sincerely thank each of them. I'd also like to extend my appreciation to all of our partners, with whom I believe we are making a huge and very positive difference for today and for the future.

As we move ahead, our commitment to Canadians is to give them the tools they need to increase their ability to understand, analyze and navigate the financial landscape with confidence and safety in their day-to-day lives. Knowledge *is* power, and even a little financial know-how can go a very long way.

One final note. The Agency is always looking to better our communication efforts. That's why this year we are reporting in a new and enhanced way. To give our stakeholders a more complete picture of FCAC's activities in one convenient document, our Annual Report has been merged with our annual Performance Report. We've also presented information in a clearer, more effective format. I invite your feedback, and please tell us how we can help further empower Canada's financial consumers.

Ursula Menke

**Ursula Menke**
Commissioner

*If there ever was a time to prove the importance of our role — providing financial education to consumers — it has certainly been in the past year.*

# Who We Are

| Fast Facts About FCAC | |
|---|---|
| Employees* | 49 |
| Headquarters | Ottawa |
| Founded | 2001 |
| Founding legislation | *Financial Consumer Agency of Canada Act* |
| Free consumer resources available* (brochures, tip sheets, web tools, etc.) | 50+ |

*As of March 31, 2009

*The Financial Consumer Agency of Canada has been very, very useful to us as a provider of information that we can provide for free, pro bono, to our clients.*

*Richard Haggins, Operations Manager, InCharge Debt Solutions Canada*

## Our role and mandate

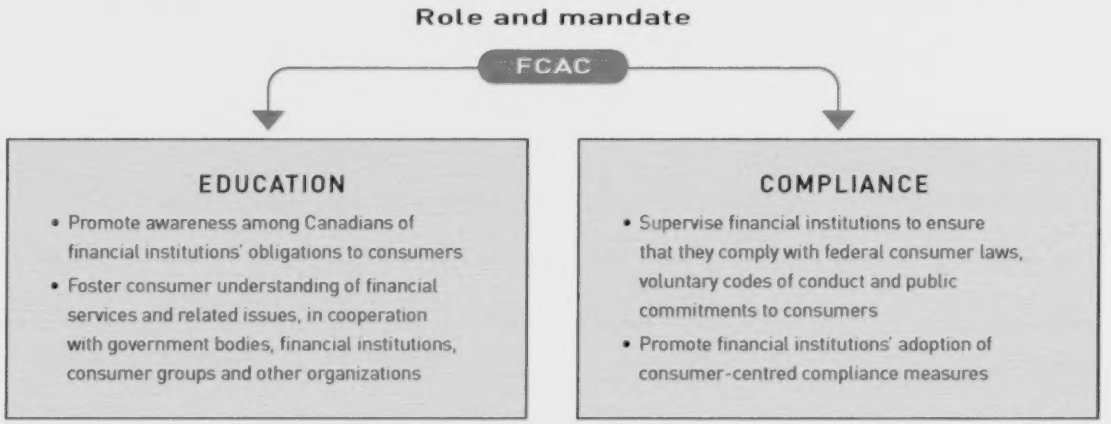
Canada's financial sector has grown increasingly complex and sophisticated, with a wide range of products, services and companies competing for the business of consumers.

Today, more than ever before, it is crucial for Canadians to be empowered and engaged in managing their money and dealing with financial institutions. Responding to this vital need is the role and mandate of FCAC.

Founded in 2001, FCAC is an independent federal government agency created to:

- consolidate and strengthen oversight of consumer protection measures in the federally regulated financial sector; and
- expand consumer education and financial literacy so that consumers have the information and financial skills they need to make informed financial decisions and actively participate in and strengthen the financial sector.

Through this dual mandate, FCAC is committed to empowering Canadian financial consumers. For us, that means helping people become better financial decision makers, while ensuring that the companies they do business with respect the rights and interests of consumers, by, for example, providing adequate product and services disclosure.


Role and mandate
FCAC
EDUCATION
• Promote awareness among Canadians of financial institutions' obligations to consumers
• Foster consumer understanding of financial services and related issues, in cooperation with government bodies, financial institutions, consumer groups and other organizations
COMPLIANCE
• Supervise financial institutions to ensure that they comply with federal consumer laws, voluntary codes of conduct and public commitments to consumers
• Promote financial institutions' adoption of consumer-centred compliance measures

**>>** Learn more about who we are and what we do at **fcac.gc.ca**

## Organizational structure

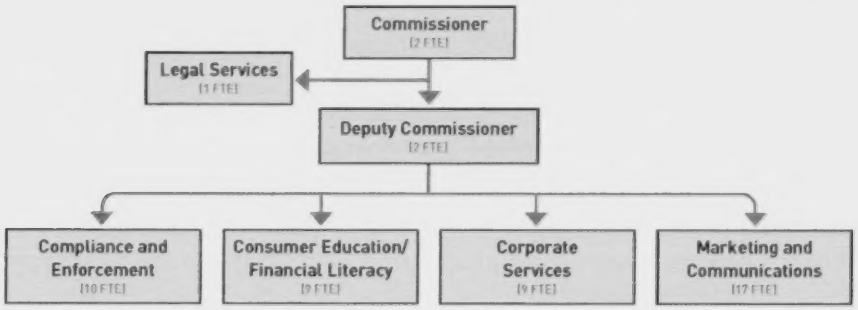
The ***Executive Branch***, which includes the Commissioner, the Deputy Commissioner and support staff, sets the Agency's strategies and priorities, provides leadership and direction in managing the Agency and determines the enforcement measures to be applied in cases of non-compliance.

The ***Legal Services Unit***, which consists of one senior counsel from the Department of Justice Canada, provides legal research, advice and support for the Agency.

The ***Compliance and Enforcement Branch*** is responsible for the Agency's compliance activities, including overseeing federally regulated financial institutions' compliance with applicable laws and regulations, undertaking annual and on-site examinations, performing industry reviews of specific compliance issues and reporting compliance matters to the Commissioner. This branch also monitors the industry's adherence to the codes of conduct and voluntary public commitments it has put in place. Through its compliance work, the branch engages with federally regulated financial institutions in efforts to promote greater compliance within the marketplace, encouraging the adoption of effective internal policies and sound business practices for implementing consumer-centred compliance measures.

The ***Consumer Education and Financial Literacy Branch*** is responsible for researching and developing educational materials and tools to help Canadians understand financial products, services and issues.

The ***Corporate Services Branch*** supports the Agency's activities by providing services and expertise in various areas, including corporate planning, financial management, risk management, procurement, contracts and supplies, facility management, security, information technology, information management and program evaluation.




*FCAC is committed to ensuring consumers have access to good information and the tools they need to make informed choices.*

*It is very confusing for someone that's new to Canada to learn how the credit card system works, how to use the debit cards... It's also difficult to open up a bank account. The Financial Consumer Agency of Canada is very helpful, especially the website.*

*Monica Daga, Settlement Worker, Thorncliffe Neighbourhood Office*

The ***Marketing and Communications Branch*** supports FCAC's programs and manages outreach activities, as well as informing consumers through various communications channels. This branch also manages the Agency's communications with the media and the public, the design of FCAC's publications and, in co-operation with the Compliance and Enforcement Branch, fosters an open exchange of information with the financial industry on issues of mutual concern. The branch is also responsible for building strategic partnerships through which FCAC can disseminate information and reach Canadians.

**Human resources — full-time equivalents (FTEs)**

| FISCAL YEAR | PLANNED | ACTUAL |
|---|---|---|
| 2008–2009 | 48 | 49[1] |
| 2007–2008 | 47 | 47 |
| 2006–2007 | 41 | 41 |

[1] Increase the result of additional resources hired for the Financial Literacy program.

**Financial resources ($ millions)**

| FISCAL YEAR | PLANNED | ACTUAL |
|---|---|---|
| 2008–2009 | $10,770,000[2] | $9,572,000 |
| 2007–2008 | $8,983,000 | $7,876,000 |
| 2006–2007 | $7,909,000 | $8,039,000 |

[2] In the 2007 Budget, the Government of Canada provided FCAC with funding of $3 million to support efforts to improve financial literacy in Canada. Of that amount, $1 million was received in 2007–2008 and $2 million was received in 2008–2009. In the 2008 Budget, the Government of Canada decided to provide FCAC with an ongoing funding of $2 million beyond fiscal year 2008–2009, for financial literacy initiatives.

In the last fiscal year, FCAC has spent less than its planned budget, mostly as a result of uncontrollable delays in some of its intended initiatives. These projects will be carried out in the next fiscal year. The remaining amount of the budget variance was due to lower interest costs following a decrease in market interest rates, and to the contingency fund that was unused.

## Program Activity Architecture

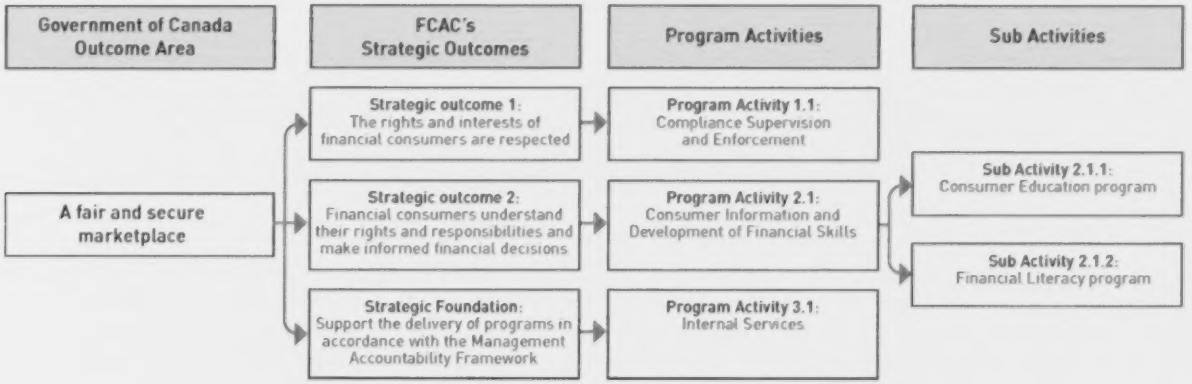
To guide our strategic planning and reporting, FCAC uses the Program Activity Architecture (PAA) and associated guidelines developed by the Treasury Board of Canada. The PAA diagram below illustrates FCAC's structure of strategic outcomes and program activities. This structure allows the Agency to effectively pursue its mandate and better link its resources and efforts to clear results, while contributing to the Government of Canada's goal to foster a fair and secure marketplace.

Last year, FCAC refined its strategic outcomes and PAA to allow for improved efficiency and to concisely articulate the long-term benefits of the Agency's programs to Canadians. We also added our new Financial Literacy program to the PAA as a result of the Government of Canada's decision to provide ongoing funding to support financial literacy initiatives. FCAC's Financial Literacy and Consumer Education programs were then combined under the same umbrella to support synergies between the two programs while ensuring that we determine specific expected results and targets for each program. Internal Services was also added to the PAA as a program, as required by Treasury Board of Canada. This 2008–2009 Annual Report is based on the revised program architecture.

>> *Learn more at* ***fcac.gc.ca***

- *Business Plan 2009–2011*
- *Strategic Plan 2009–2014*

### FCAC Program Activity Architecture


Government of Canada Outcome Area
FCAC's Strategic Outcomes
Program Activities
Sub Activities
A fair and secure marketplace
Strategic outcome 1: The rights and interests of financial consumers are respected
Strategic outcome 2: Financial consumers understand their rights and responsibilities and make informed financial decisions
Strategic Foundation: Support the delivery of programs in accordance with the Management Accountability Framework
Program Activity 1.1: Compliance Supervision and Enforcement
Program Activity 2.1: Consumer Information and Development of Financial Skills
Program Activity 3.1: Internal Services
Sub Activity 2.1.1: Consumer Education program
Sub Activity 2.1.2: Financial Literacy program

*Go to **fcac.gc.ca** for a list of consumer provisions under FCAC's oversight.*

## What We Do:

# Compliance Supervision and Enforcement Program

***Ensuring the rights and interests of financial consumers are respected***

When financial consumers receive information that they are entitled to, they are in a far better position to make informed decisions about the financial products and services they purchase. This, in turn, helps consumers enjoy the social and economic benefits of participating in a fair and secure Canadian financial marketplace.

The federal government has put in place a number of laws and regulations called "consumer provisions" to protect consumer interests and ensure that financial institutions disclose certain information to their customers. FCAC's job is to enforce these federal laws, and we've set up our Compliance Supervision and Enforcement Program for this purpose. Through this program, we seek to promote financial institutions' compliance with federal consumer provisions, as well as monitor the industry's adherence to the codes of conduct and public commitments it has voluntarily put in place.

### Our performance

In our compliance work, we strive to meet certain service standards. Despite having experienced significant staff turnover during part of the year and longer than expected staffing processes, FCAC's standards of service for its compliance program remained at a good level, with a majority of cases completed within our response time targets. We also made good progress last year on several important initiatives to enhance compliance processes.

We made a significant improvement to how we publicly report the Commissioner's Decisions on compliance investigations. In the past, only a summary had been provided on FCAC's website. In 2008–2009, we began posting the full text of the Commissioner's Decisions (with minimal edits to protect confidential information) to be more transparent about the context and rationale behind them.

The Commissioner issued one Notice of Decision in 2008–2009 because a bank did not meet its obligation of making proper disclosure of the applicability of a promotional interest rate and annual interest rate for a credit card, as required by the *Cost of Borrowing (Banks) Regulations*.

While we did not uncover any major compliance matters at an industry level, we did find compliance issues at some individual institutions. Three had wide-ranging compliance issues for which we felt it was necessary to undertake a compliance action, such as a compliance agreement or an on-site examination, to rectify the issue identified. The scope and nature of these compliance actions unfolded over the course of the year. The financial institutions involved were cooperative with FCAC during the compliance action process and took steps to rectify the issues within the established timeframes. As a result of a compliance action, one institution made significant changes to the disclosure it provides consumers in its mortgage documentation.

We also began shifting our efforts to focus on a more risk-based approach to compliance, working with financial institutions to identify and resolve issues before they reach the enforcement stage. In this way, we are ensuring that consumers receive the information they need to make informed financial decisions.

## Our major initiatives

In addition to our day-to-day supervision and enforcement activities, which remain a priority at all times, we continually seek to improve our processes to foster a high level of compliance by financial institutions, while ensuring our approach is contemporary and reflective of market realities. Highlights from the past year included:

- **Annual examination process** — We reviewed and made several modifications to our yearly practice of examining financial institutions. The changes were largely technical in nature: for instance, we streamlined the questionnaire that financial institutions must complete to deal with relevant compliance elements only and aligned the annual examination process with FCAC's fiscal year, April 1 to March 31.
- **Participation in working groups** — We continued to participate in industry and government working groups, such as the Electronic Funds Transfer (EFT) Working Group and the Dispute Resolution Standing Committee.
- **Research projects** — FCAC initiated several research projects in order to gain a better understanding of industry practices and consumer experiences in the marketplace. For example, we conducted preliminary research on internet banking security; launched a review of industry practices regarding promotional offers linked to credit cards; and completed a market

*(continued on page 13)*

**FCAC regulates the following federally-regulated institutions:**

As of March 31, 2009, we regulated 423 institutions.

**>>** For more information, visit **fcac.gc.ca**

# A framework for 2010 and beyond

In 2008–2009 FCAC began revising our compliance framework, one of the biggest projects on our agenda. The purpose: to ensure that we build on our eight years of compliance experience to develop an efficient and effective framework that promotes compliance by financial institutions in a dynamic financial services marketplace. While serving us well since FCAC's inception in 2001, our current complaints-based approach had become too restrictive for today's financial services marketplace.

During the past year, we held numerous consultations with industry and government stakeholders to get input on our internal strengths and weaknesses and began creating an expanded risk-based compliance model, which will be implemented by the end of 2009. We are moving to a more risk-based approach to supervising the conduct of financial institutions, with updates being made in five key areas:

- improving and expanding our information base;
- developing and implementing a risk assessment model;
- enhancing proactive compliance through strong research;
- maximizing the use of FCAC's compliance toolbox; and
- improving reporting on compliance activities.

The result? The new compliance framework will help FCAC make better assessments of industry compliance and ensure we focus our resources on the market areas that pose the greatest compliance risk.

*(continued from page 11)*

analysis of debit card code. We also invited the financial industry to participate in roundtable discussions with us about new regulations on principle-protected notes.

- **Government advisory role** — FCAC continued to provide input to the Department of Finance on relevant financial services issues. For instance, we submitted comments and suggestions on all new draft regulations affecting financial institutions, including the *Cost of Borrowing Regulations* introduced last year.

Please see as well our Performance Scorecard on page 27.

## Industry performance

In the context of our work this past year, we feel that all financial institutions are working positively with FCAC and are either maintaining or continuing to improve their systems and procedures to ensure compliance with their legislative obligations.

Through our annual examination process, we ask financial institutions for updates to their complaint-handling procedures, which we make available on our website.

*Go to **fcac.gc.ca** to use FCAC's complaint-handling process search tool.*

### Benefit to Canadians

Over the past year, the activities and initiatives of our Compliance Supervision and Enforcement program produced the following benefits:

- the rights and interests of financial consumers continued to be respected by financial institutions and championed by FCAC;
- several financial institutions modified their disclosure practices to improve the quality and quantity of information they give to Canadians; and
- FCAC helped to foster a more transparent, fair and secure financial services marketplace for Canadians.

*The Financial Consumer Agency of Canada: we have been working with them since 2003. We formed an instant bond for a couple of reasons. One was that we both understand as organizations that financial literacy was an absolutely crucial skill for Canadians. And also that there wasn't enough being done with respect to helping folks become more financially literate.*

*Peter Nares, Founding Executive Director, SEDI—Social and Enterprise Development Innovations*

What We Do:

# Consumer Information and Development of Financial Skills Program

***Ensuring financial consumers understand their rights and responsibilities and make informed financial decisions***

Consumer Information and Development of Financial Skills is a broad term for two core FCAC programs focused on bolstering financial acumen in Canada:

- The **Consumer Education program** seeks to enhance consumers' knowledge of the financial industry and of financial institutions' obligations toward them under federal consumer provisions.
- The **Financial Literacy program** aims to help Canadians build the skills and confidence to better manage their money and financial affairs, from saving to credit and debt management.

Through both programs, we offer a combination of services and tools, all designed to arm consumers with information.

**This is essential.** By learning and understanding their rights and responsibilities with regard to financial products and services, and developing the skills and confidence they need, consumers put themselves in a better position to make good financial decisions.

Informed consumers are also better able to actively participate and strengthen competition in the financial marketplace. This, in turn, will help consumers enjoy the social and economic benefits of participating in a fair and secure Canadian financial marketplace.

*FCAC has helped us collect practical information quickly, in order to build our in-house tools and support us in our work.*

*Sophie Miron, financial educator, Carrefour jeunesse emplois de l'Outaouais*

## Our websites for Canadians

### FCAC CORPORATE SITE

>> fcac.gc.ca

### MONEY TOOLS

>> moneytools.ca

Our consumer Web portal that provides easy access to the tools and resources on FCAC's corporate site

**Target audience:**

- Canadians, financial institutions, media

**Purpose:**

- Offer information about FCAC's role
- Provide resources for people to learn more about the financial industry and financial services, products and issues
- Answer questions from the public

**Key features:**

- List of consumer provisions and financial institutions under FCAC oversight
- More than 50 free consumer resources, including publications, tip sheets and interactive tools (such as a mortgage calculator and credit card selector)
- Media toolkit and contacts
- News and speeches

### THE MONEY BELT

>> themoneybelt.gc.ca

**Target audience:**

- Students, youth, teachers

**Purpose:**

- Serve as a gateway for young Canadians to learn more about money

**Key features:**

- Money quizzes and quick tips
- Resources for teachers
- *The City* resource
- Interactive tools for comparing credit cards and bank accounts

*Overall, there was a significant increase in use of our educational resources by consumers.*

## Consumer Education program

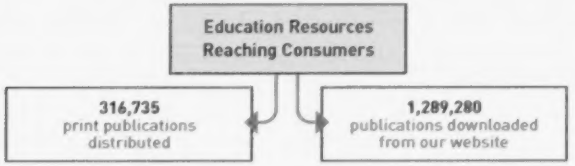
Our Consumer Education program boosts financial consumers' awareness and understanding of their rights and responsibilities, and ensures they have the information they need to make informed financial decisions. How do we do that? By offering a wide range of publications, interactive tools, resources and services through four main channels: the telephone, mail, the internet and proactive outreach.

Accessibility is a cornerstone of our approach: making our services and educational resources available to, and understandable by as many Canadians as possible, so that they can get the financial information they need.

### Our performance

This year's key performance indicators measured use of our materials by consumers, and the extent to which we met our service standards for delivering financial information to consumers. Highlights from 2008–2009 included:

- consumer interest and use of our education resources rose overall — through our partnerships alone, we distributed more than 250,000 publications;




- consumer satisfaction levels with FCAC's education resources remained above expectations;
- we launched several new education activities that helped to strengthen our effectiveness in reaching consumers.

Please see as well our Performance Scorecard on page 28.

### Our major initiatives

During the past year, we undertook a number of initiatives to help financial consumers better understand their financial rights and responsibilities. Examples included:

- **Print and Web resources:** FCAC offers more than 50 different educational resources, in print and online, dealing with a variety of financial topics. Last year we continued to update and expand these offerings (see next page).
- **Clear and effective communications:** While FCAC has always strived to create easy-to-understand information for consumers, last year we took steps to formalize this practice. We researched, identified and began developing clear language and presentation principles for use in our educational materials, and will implement them in 2009–2010. To promote a consumer-centred approach by financial institutions, in partnership with MasterCard, we also completed a model credit card application that explains, in a clear and concise manner, what is involved in applying for a credit card; also included is a glossary of terms to help consumers better understand the product before entering into a contract.

## Education Resource Updates in 2008–2009

### PUBLICATIONS

- Updated the *Credit Cards and You* information series and added a new booklet entitled *Service Fees on Credit Card Transactions* to help consumers understand and compare service fees on credit cards
- Produced new tip sheet series materials, including information about tax-free savings accounts (TFSAs), registered education savings plans (RESPs), budgeting and beating consumer debt
- Updated FCAC mortgage material to reflect new mortgage loan insurance parameters

### WEB TOOLS

- Updated the credit card and bank account selection tools with new rates and fees from financial institutions
- Updated our savings account tool to help consumers compare interest rates and other features
- Modified the online mortgage tools to help Canadians understand how a mortgage lender qualifies for a loan, how a payment is determined and the financial savings consumers can enjoy from prepayments
- Enhanced the FCAC website and electronic publications to meet the Treasury Board of Canada's Common Look and Feel Standards 2.0

## In the news:

**692 media mentions resulting in approximately 28.3 million known media impressions***

As a key partner in FCAC's efforts to reach Canadians in all regions of the country, the media plays an important role, helping us deliver objective information quickly and cost-effectively. In 2008–2009, FCAC continued to use various media channels, including community newspapers, editorial letters and media commonly read by immigrants and newcomers to Canada. The result: an increase of media mentions over the previous year.

* Some circulation statistics are not available so the actual impression amount is significantly higher.

*The tools FCAC has developed that are available on the internet ... nicely complement what we already have. It can be inspiring in some cases, providing ideas that may be useful to me in my work with customers.*

*François Leblanc, budget advisor, Entraide budgétaire*

- **Community outreach:** FCAC organizes and participates in numerous events to educate consumers. Last year, we participated in the Government of Canada Pavilion at three events, in St. John's, NL, Charlottetown, PEI, and Calgary, AB. These showcases featured different federal departments and agencies and gave FCAC the opportunity to meet face-to-face with Canadians across the country, listen to their concerns and inform them of the Agency's services. FCAC also exhibited at select consumer shows and teacher conferences across the country. In total, we reached more than 13,000 Canadians through such community activities.

- **Collaborating with other government agencies:** FCAC worked with several federal departments to leverage opportunities to distribute our materials to Canadians. One example was our partnerships with Canada Revenue Agency and Human Resources and Skills Development Canada (HRSDC), whereby we distributed 21.2 million cheque inserts on various financial topics to Canadian beneficiaries of the GST/HST credit, Canada Child Tax Benefit, Canada Pension Plan and Old Age Security cheques. As a result, these initiatives generated nearly one-third of our telephone and correspondence contacts and raised awareness of our Agency. As another example, with the help of Agriculture and Agri-Food Canada, we distributed close to 1,300 publications at 60 agricultural and rural events.

### Benefit to Canadians

Over the past year, the activities and initiatives of our Consumer Education program produced the following benefits:

- Canadians from all walks of life were able to access free information on diverse financial topics through a variety of channels;
- more Canadians learned about their rights and responsibilities and became better equipped to make informed financial decisions; and
- FCAC helped to foster a more transparent, fair and secure financial services marketplace for Canadians.

## Financial Literacy program

In 2007, FCAC began working on a new initiative: bolstering financial literacy skills among Canadian youth, a focus consistent with FCAC's underlying mandate of supporting and championing financial education.

**The language of dollars and cents**

What is financial literacy? Basically, it's the knowledge, skills and confidence that consumers can use to make informed financial decisions.

Like learning the ABCs and how to read and write, financial savvy is a practical skill people can use to their advantage every day of their lives. With a foundation of knowledge about money, people can make better decisions about their finances and avoid serious and costly problems.

Over the past two years, we have built a made-in-Canada financial literacy program to help young Canadians gain the knowledge, skills and confidence to manage their financial affairs more effectively. The initiative, which consists of educational tools and strategic partnerships to deliver and promote these tools, is supported by the Government of Canada. Initially, the federal government allocated $3 million to support the program from 2007 to 2009. In the 2008 Budget, the Government of Canada provided ongoing funding of $2 million to FCAC as continuous support to the Agency's efforts related to financial literacy.

### Our performance

During the previous fiscal year (2007–2008), we laid the foundation for the Financial Literacy program: researching best practices, consulting with other organizations, establishing partnerships and developing educational resources specifically targeted to youth. Building on this work, we launched the Financial Literacy program in 2008–2009 and used targeted marketing and communication strategies to promote it to youth and teachers across the country.

Met with enthusiasm by educators, students and the public alike, FCAC's achievements for the Financial Literacy program last year included:

- the launch of *The Money Belt* Web portal
- new partnerships with educators, industry and government across Canada
- new instructional materials for teachers, including *The City: Financial Life Skills Resource for Teachers and Students*
- the creation of principles for evaluating financial literacy programming
- a second national conference, *Reaching Higher: Canadian Conference on Financial Literacy*

Please see as well our Performance Scorecard on page 31.

*...effective financial information and increased financial literacy can result in better consumer choices, a larger and more dynamic market for financial sector services, and greater participation in capital markets. It can translate into higher savings levels and decreasing indebtedness...the best decision is an informed decision. Especially in the fast-paced global market we now live in... We must ensure our children and grandchildren understand our markets and our financial products and services. Our collective prosperity depends on financial sectors society can trust, and rules that are fair and can be followed.*

*Excerpts from a speech by the Honourable Jim Flaherty, Minister of Finance, at the International Conference on Financial Education, Washington, D.C., May 8, 2008*

**Teachers and Students Embrace *The City***

- 5,974 students and 1,426 teachers registered to use *The City*
- 632 of *The City* manuals distributed across Canada
- 127 teachers, who trained via *The City* web seminar, gave top ratings for the quality and delivery of information

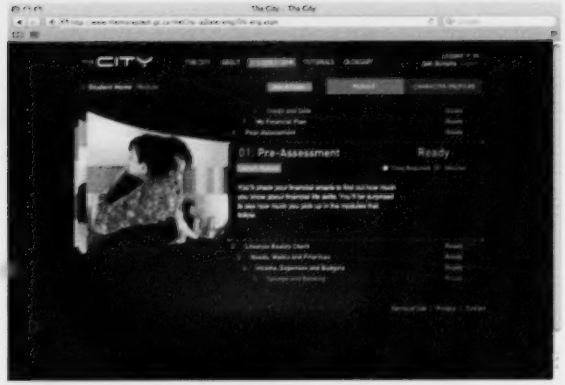
*Consumer interest in FCAC's new website, The Money Belt, has been high, with over 97,000 online visits in the first eight months of operation.*

## Our major initiatives

Highlights of the past year included:

- ***The Money Belt:*** FCAC unveiled this innovative and engaging website (**themoneybelt.gc.ca**), which serves as an electronic gateway to a broad range of financial education resources designed for teachers, young people and the public. *The Money Belt* is dedicated to teaching financial life skills — the basics about money and the financial world — in an easy-to-understand way.

- ***The City: A Financial Life Skills Resource for Teachers and Students:*** Launched in September 2008 through *The Money Belt* website, *The City is a* web-based interactive tool for students and a ready-to-use resource for educators. It uses a story-driven approach to illustrate the situations that youth may face with their finances during the different stages of their lives. FCAC partnered with the British Columbia Securities Commission to create *The City* and it is now being promoted across Canada jointly with several provincial securities commissions.




FCAC promoted *The City* with an online and print advertising campaign. Our partners were instrumental in marketing *The City* as a valuable teaching resource. With the assistance of Curriculum Services Canada, we made teacher training workshops available through in-class or Web-based training modules. FCAC also worked with 14 provincial and territorial teacher champions to promote use of *The City* in the secondary school curriculum.

- ***YourMoney*** **seminars:** FCAC partnered with the Canadian Bankers Association to create a free, in-class seminar program for high school students. Delivered by volunteers from the banking industry in communities across the country, the seminar introduces students to key financial concepts such as budgeting, saving and using credit wisely. In 2008–2009, 258 seminars were held with 7,451 students attending.

- ***Financial Basics* course:** This new course was piloted, free of charge, at George Brown College in Toronto, with 766 young Canadians aged 18–29 years participating. FCAC developed the course in collaboration with the Ontario Investor Education Fund, George Brown College and financial author Ellen Roseman. After the successful pilot, an independent assessment recommended that the course be expanded across Canada. FCAC is now developing a complete program for youth and adults alike.
- ***Reaching Higher* conference:** In September 2008, FCAC worked with the Joint Forum of Financial Market Regulators and Social and Enterprise Development Innovations to host a major conference on financial literacy. It brought together domestic and international experts to share best practices, promote dialogue and encourage cooperation.
- **Best practices in financial literacy:** FCAC developed *Is Financial Education in Canada Working? Research and recommended best practices for evaluating financial education programs*, a paper outlining principles and a framework for evaluating financial literacy education. This paper will serve as the basis for the development of a broader framework to measure the effectiveness of financial literacy programs across Canada.

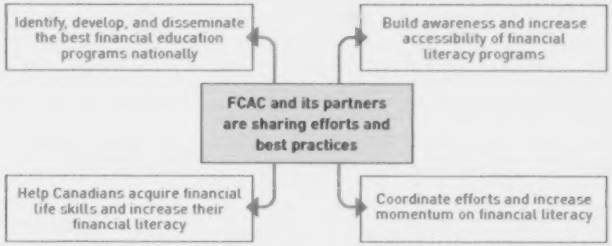
## Benefit to Canadians

Over the past year, the activities and initiatives of our Financial Literacy program produced the following benefits:

- teachers across Canada were able to access free, easy-to-use resources to incorporate in their curricula and use with their students;
- students and youth throughout the country were able to access free, easy-to-understand learning resources on money management and financial issues;
- more Canadians advanced their financial skills and knowledge, thereby increasing their ability to make informed financial decisions; and
- FCAC helped to foster a more transparent, fair and secure financial services marketplace for the next generation of Canadians.

**Teaming up to raise financial IQs**

Boosting financial literacy in Canada is no small endeavour. That's why we have joined forces with a broad collaboration of players. Partnerships are vital to our mutual success — they expand our reach, help disseminate our materials and foster an exchange of ideas.


Identify, develop, and disseminate the best financial education programs nationally
Build awareness and increase accessibility of financial literacy programs
FCAC and its partners are sharing efforts and best practices
Help Canadians acquire financial life skills and increase their financial literacy
Coordinate efforts and increase momentum on financial literacy

*The City is certainly a complete resource. It touches on all aspects of personal finance, and the activities are ready to go. Various activities are suggested. Links are made to programs of study, so it is easy for teachers to take this resource and incorporate it into their classes.*

*Pierre Roy, teacher, École Mathieu-Martin*

*Based upon a self-assessment, of the 21 Management Accountability Framework elements, FCAC scored "strong" or "acceptable" ratings on 18 elements.*

What We Do:

# Internal Services Program

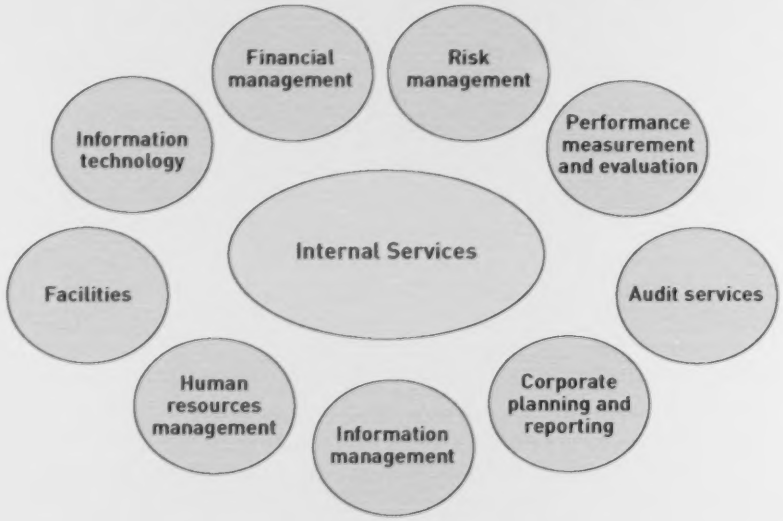
***Ensuring the Agency and its programs run effectively and efficiently***

Internal Services is comprised of FCAC's corporate services groups, which play an important role in supporting the administration and delivery of the Agency's programs effectively and efficiently. Internal Services also ensures FCAC adopts and applies best practices to manage its programs and human resources, and implements the appropriate policies, procedures and reporting structure.

## Our major initiatives

Several initiatives were undertaken in 2008–2009 to ensure the implementation of best practices in delivering our strategic outcomes, priorities and activities, including:

- **Management Accountability Framework (MAF) self-assessment:** FCAC undertook a MAF self-assessment, the purpose of which was to assess our management processes in order to identify opportunities to strengthen our management and



administration. The MAF summarizes the government's expectations for modern public service management in order to achieve a high quality of organizational performance. FCAC scored well on most elements of the MAF.

- **Multi-Year Internal Audit:** FCAC continued to implement its multi-year internal audit plan, with a focus on corporate planning activities and processes. The objectives of the internal audit plan are:
  - to review our corporate planning framework for governance and accountability, objective setting, operating environment, risk management, planning processes and communications;
  - to review the framework's integration with other oversight/management functions; and
  - to identify potential areas for improvement in planning.

  The audit found that FCAC had established an appropriate corporate planning framework that integrates strategic, business and activity plans, in addition to strong communications between management and with staff. During 2009–2010, FCAC will work on the few recommendations highlighted in the review.
- **Business Continuity Planning:** we completed our business impact analysis, then finalized and successfully tested a business resumption plan, including infrastructure, applications and recovery systems. The business continuity site is operational and a walk-through was provided.
- **Records, Documents and Information Management System (RDIMS):** FCAC implemented RDIMS to enhance our information management system. We completed Phase 1 of the Information Management Policy last year. We will continue to provide training and awareness sessions to ensure that all users and managers understand their roles and responsibilities.
- **Public Service Employee Survey:** FCAC participated in this government-wide survey, in which we scored 76 percent in staff satisfaction ratings.

# The Numbers

## Tables

### Number and nature of complaints for non-compliance related matters

(excludes general inquiries, complaints reported by federally regulated financial institutions, compliance files initiated by FCAC)

**Non-Compliance Related Complaints Received from Consumers**

| NATURE OF COMPLAINTS | NUMBER OF COMPLAINTS |
|---|---|
| Credit | 428 |
| Credit cards | 760 |
| Deposit accounts | 907 |
| FCAC | 59 |
| Financial institutions or other companies | 351 |
| Financial literacy | 1 |
| General inquiries | 74 |
| Insurance | 283 |
| Investments | 385 |
| Lines of credit | 172 |
| Loans | 273 |
| Mortgages | 290 |
| Publications | 6 |
| Referrals to other departments or organizations | 964 |
| **Total** | **4,953** |

## Number and nature of complaints for compliance-related matters

### Compliance-Related Complaints Received from Consumers

| NATURE OF COMPLAINTS | NUMBER OF COMPLAINTS |
|---|---|
| **Consumer provisions** | |
| Deposit accounts | 25 |
| Branch closures | 1 |
| Cheques | 12 |
| Coercive tied selling | 3 |
| Complaint-handling procedures | 4 |
| Cost of borrowing — credit cards | 41 |
| Cost of borrowing — lines of credit | 5 |
| Cost of borrowing — loans | 7 |
| Disclosure of charges for services | 3 |
| Disclosure of interest rates | 3 |
| Mortgages | 25 |
| Public Accountability Statements | 5 |
| **Codes of Conduct** | |
| Authorized insurance activities | 12 |
| Debit card code | 22 |
| **Public Commitments** | |
| Accessibility of complaint-handling procedures | 1 |
| Credit cards — general | 1 |
| General | 1 |
| Guidelines for the Transfer of Registered Plans | 4 |
| Reduce cheque hold periods on cheques | 2 |
| Undertaking on unsolicited services | 1 |
| Zero liability credit cards | 19 |
| Zero liability prepaid cards | 2 |
| **Total** | **199** |

## Internal audits and evaluations

| NAME | TYPE | STATUS | ACTUAL COMPLETION DATE |
|---|---|---|---|
| Corporate Planning Framework | Internal audit | Completed | March 2009 |

The audit concluded that FCAC's corporate planning activities and processes incorporate all elements and components of a comprehensive planning framework. The following were identified as areas of improvement:

| AREAS OF IMPROVEMENT | RESPONSE FROM FCAC |
|---|---|
| Streamlining and refining the Business Plan structure | The 2009–2011 business plan has been streamlined to better demonstrate the alignment among all the elements of FCAC's Program Activity Architecture, including strategic outcomes, expected results, key performance indicators by program activity and program sub-activity. The business plan also includes the strategic priorities and related key activities and their contribution to the program activities. In addition, key expenditures (e.g. human resources) and investments (e.g. capital expenditures) are presented by strategic priority.<br><br>The new business plan structure will be reassessed in January 2010 to further enhance its content and presentation, if needed. |
| Formalizing performance reporting on strategic outcomes and priorities | The streamlined 2009–2011 business plan includes key expected results, key performance indicators and deliverables or targets related to FCAC's program activities and program sub-activities. This structure will allow for enhanced performance reporting as the latter will be aligned with the key elements of the business plan.<br><br>FCAC will develop and update its Management Resources and Results Structure and Results-based Management Accountability Framework by September 30, 2009. |
| Develop an overview guide on planning | FCAC will develop a corporate planning overview guide in order to consolidate the documented procedures, processes and work tools by September 30, 2009. The guide will also include new elements (e.g. roles and responsibilities and governance structure related to corporate planning), as appropriate. |

## Performance Scorecards

In this section, you can learn more about FCAC's performance in relation to the priorities and targets/expected results we established in our *2007–2009 Business Plan*. The following "performance scorecards" summarize our results last year, giving a clear, concise picture of how we did.

| 2008–2009 Performance scorecard: Compliance program | | | | |
|---|---|---|---|---|
| STRATEGIC OUTCOME | Ensuring the rights and interests of financial consumers are respected | | | |
| PRIORITY | TARGET/EXPECTED RESULTS | PERFORMANCE STATUS | PERFORMANCE AND COMMENTS | CORRECTIVE ACTIONS |
| **1. Identification and timely correction of compliance issues in the marketplace** | On an annual basis, financial institutions complete at least 90 % of corrective actions within the agreed timeframe. | Met all | • Compliance agreements, action plans and noted violations were corrected within the agreed timeframe. | Not needed |
| | At least 75 % of compliance cases on average are closed within 90 working days. | Exceeded | • 82.5% of compliance cases opened in 2008–2009 were closed within 90 days. | Not needed |
| **2. Ensuring a high level of compliance by financial institutions with federal consumer provisions and their own codes of conduct and public commitments** | On average, industry compliance levels are increasing annually or are maintained at a high level. | Met all | • Our reviews showed that compliance levels remained high. | Not needed |
| **3. Enhancing industry's knowledge of its obligations to consumers** | Participants or financial institutions attending workshops. | Met all | • Workshops were held for financial institution employees to educate them about compliance obligations. | Not needed |
| | Feedback/rating from participants attending the workshops. | Met all | • Positive feedback received, with many participants requesting further workshops. | Not needed |

| 2008–2009 Performance scorecard: Consumer Education program | | | | |
|---|---|---|---|---|
| **STRATEGIC OUTCOME** | Financial consumers understand their rights and responsibilities and make informed financial decisions | | | |
| **PRIORITY** | **TARGET/EXPECTED RESULTS** | **PERFORMANCE STATUS** | **PERFORMANCE AND COMMENTS** | **CORRECTIVE ACTIONS** |
| **1. FCAC be seen as a key, credible source of objective information on:**<br>• **financial products and services**<br>• **the obligations of federally regulated financial institutions to consumers** | FCAC's print and Web publications and interactive tools will achieve at least a 3.5 out of 5 satisfaction rating. | Exceeded | • 3.56 score for print/web publications.<br>• 3.87 score for interactive tools. | Not needed |
| | FCAC's service commitments are met: | | | |
| | • 80% of correspondence is responded to within 10 days; | Mostly met | 71% | Gap in the measurement of the standard has been identified and is being corrected. |
| | • 85% of publication requests are filled within seven days; | Somewhat met | 65% | Processes for fulfilling requests have been modified to increase efficiency. |
| | • average call wait time for consumers is 30 seconds or less; | Mostly met | 33 seconds | FCAC cross-trained several employees to improve effectiveness during specific peak periods. Call length has increased from last year due to increasing complexity. As of April 1, 2009, FCAC changed to using common industry targets of (a) 35 seconds for call wait time and (b) not recording calls that abandon within the first 15 seconds. |
| | • call abandonment rate is 5% or less; | Not met | 7.6% | |
| | • 90% of calls received are completed at first point of contact. | Exceeded | 97.5% | Not needed. |

| 2008–2009 Performance scorecard: Consumer Education program (continued) | | | | |
|---|---|---|---|---|
| **STRATEGIC OUTCOME** | Financial consumers understand their rights and responsibilities and make informed financial decisions | | | |
| **PRIORITY** | **TARGET/EXPECTED RESULTS** | **PERFORMANCE STATUS** | **PERFORMANCE AND COMMENTS** | **CORRECTIVE ACTIONS** |
| **2. Increase financial consumers' awareness and understanding of their rights and responsibilities as they relate to the financial marketplace** | 5% increase (over 2007–2008 levels) in the number of print publications distributed and electronic publications downloaded. | Exceeded<br><br>Not met | • Web downloads (1,289,280) increased by 6%.<br>• Print distribution (316,735) was 47.7% below target due to a sizeable one-time initiative in March 2008 which was not repeated.<br>• Of that number, consumers and partners requested 304,286 publications which represents an increase of 1.1% over 2007–2008. | Not needed |
| | Average 150,000 website visits per month. | Mostly met | • 135,905 average monthly visits to FCAC's corporate site (including *Money Tools*).<br>• Visits to *The Money Belt* are increasing steadily, with an average of 12,128 monthly for the year, and a peak of 15,402 visits in March 2009.<br>• 148,033 combined average monthly visits. | We are continuing to seek ways to innovate and stimulate interest from consumers, including hiring a Web strategist. |

| 2008–2009 Performance scorecard: Consumer Education program (continued) | | | | |
|---|---|---|---|---|
| STRATEGIC OUTCOME | Financial consumers understand their rights and responsibilities and make informed financial decisions | | | |
| PRIORITY | TARGET/EXPECTED RESULTS | PERFORMANCE STATUS | PERFORMANCE AND COMMENTS | CORRECTIVE ACTIONS |
| **2. Increase financial consumers' awareness and understanding of their rights and responsibilities as they relate to the financial marketplace (continued)** | 10% increase (over 2007–2008 levels) in use of interactive Web tools. | Mostly met | • Use was 21% below target due to sizeable drop in use of the CHP (complaint-handling) tool, which skewed the total. All other tools had an increase in usage of more than 10%. | This drop in CHP usage was a result of a change in procedures at our call centre. Agents now provide CHP information directly instead of referring consumers to the CHP tool online.<br>As a corrective action, FCAC has since modified its website to increase traffic back to the CHP tool, as consumers had difficulty locating it. |
| | At least 50,000 publications are distributed through FCAC's partners yearly. | Exceeded | • 258,015 publications distributed through partners. | Not needed |
| | At least 12,000 Canadians yearly are reached through consumer exhibitions and workshops. | Exceeded | • FCAC held discussions with more than 13,000 Canadians at three events with the Government of Canada Pavilion and at consumer shows and teacher conferences across the country. | Not needed |

| 2008–2009 Performance scorecard: Financial Literacy program | | | | |
|---|---|---|---|---|
| STRATEGIC OUTCOME | Financial consumers understand their rights and responsibilities and make informed financial decisions | | | |
| PRIORITY | TARGET/EXPECTED RESULTS | PERFORMANCE STATUS | PERFORMANCE AND COMMENTS | CORRECTIVE ACTIONS |
| **Develop, share and facilitate the distribution to financial education providers and other interested parties of information and instructional materials for financial literacy education, especially for young people** | A network of strong, appropriate partners who are involved in the financial literacy initiative will be in place. | Met all | • Maintained and expanded partnerships with federal and provincial governments, industry, non-profit organizations, teaching professionals and academic institutions. | Not needed |
| | A fully operational Web portal for financial literacy will be in place by March 31, 2009. | Exceeded | • *The Money Belt* website launched July 31, 2008.<br>• High consumer interest in the new site, with over 97,000 visits. | Not needed |
| | Education material on financial literacy for the use of teachers and other teaching professionals will be operational by March 31, 2009. | Exceeded | • *The City: A Financial Life Skills Resource for Teachers and Students* launched in September 2008.<br>• *YourMoney* seminar launched in September 2008. | Not needed |
| | An evaluation framework for financial literacy will be available by March 31, 2009. | Met all | • Report completed and available. | Not needed |

# Financial statements

## Financial highlights

The Financial Consumer Agency of Canada is a federal government department that is funded mostly through industry assessments paid by federally regulated financial institutions.

The Government of Canada, in its budget of March 19, 2007, had proposed to contribute $3 million in funding to FCAC ($1 million in fiscal year 2007–2008 and $2 million in fiscal year 2008–2009) in order for the Agency to develop information and instructional materials for financial literacy education, especially for young people, and share and facilitate their dissemination through financial education providers and other interested parties.

Human resources costs were $816,000 higher than in fiscal year 2007–2008. This increase includes additional staff that filled new positions related to the Financial Literacy program, the filling of vacancies, and planned growth in employee compensation and performance-related pay, which is available to employees at all levels within the organization.

Professional costs were $859,000 higher, primarily due to an increased use of professional services by the Financial Literacy program related to the increased funding for this fiscal year. Professional costs were also higher due to higher costs of services provided under memoranda of understanding with other federal organizations, in particular an increased use of inserts in some government cheques promoting FCAC's services and products.

Administrative and other expenses fell by about $33,000 from 2007–2008, mainly because of reduced printing costs.

Costs related to information management and technology were $43,000 higher due to infrastructure requirements to support new programs and staff as well the Agency's offsite business continuity site.

# 2008–2009

Travel costs rose by $73,000 due to increased participation in the Canada Pavilion and other outreach activities to promote and disseminate FCAC's services and programs, including the Financial Literacy program.

Interest charges decreased by approximately $74,000 from 2007–2008 as a result of lower lending rates.

From its inception, the Agency has been guided by the management principle that it should concentrate on delivering the programs called for in its legislation. We have therefore opted to use common and/or shared services to provide generic corporate services when it is cost-effective to do so. As a result, FCAC's cost structure may differ from other federal organizations. The expenses related to the common and/or shared services are listed under Professional Services instead of Salaries and Benefits costs if the services were provided by internal staff.

FCAC continues to be committed to the concept of common services agreements and has made arrangements with the following organizations:

- the Office of the Superintendent of Financial Institutions for human resources, accounting and administration, internal audit services, and research services; and
- the Canada Deposit Insurance Corporation for a joint call centre.

These strategic partnerships give the Agency the flexibility needed to manage evolving programs as cost effectively and efficiently as possible.

# Future Accounting Changes

## *Transition to International Financial Reporting Standards (IFRS)*

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable entities will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian Generally Accepted Accounting Principles (GAAP) for fiscal years beginning on or after January 1, 2011. The Public Sector Accounting Board (PSAB) is currently reviewing the *Introduction to Public Sector Accounting Standards*, which provides direction as to the appropriate basis of generally accepted accounting principles to be adhered to by government organizations. More specifically, PSAB is currently proposing to continue to allow other government organizations (OGOs), such as FCAC, to determine their most appropriate basis of accounting (between IFRS and the *Public Sector Accounting Handbook*). OGOs that determine IFRS to be the most appropriate basis of accounting for their organization would follow the same transitional timeframe as publicly accountable entities.

Some of the primary users of FCAC's annual report and the general purpose financial statements contained therein are regulated financial institutions — that is, the paying stakeholders — and their respective industry associations who, on the whole, operate financially based on GAAP. These institutions will be adopting IFRS effective 2011. FCAC is therefore also planning to adopt IFRS so that it may continue to provide relevant, reliable, comparable and understandable financial information to its paying stakeholders.

FCAC's chosen approach for its IFRS transition includes five phases: (1) Diagnostic Assessment; (2) Design and Planning; (3) Assessment, Design and Development; (4) Implementation; and, (5) Post Implementation Review. During fiscal year 2009–2010, FCAC will complete the first three phases.

The IFRS transition plan is currently being finalized, including a timetable for assessing the impact on systems, internal controls over financial reporting and business activities. A formal project governance structure has been established that includes an executive IFRS steering committee. In addition, an external advisor has been engaged to provide advice and oversight during the various phases of the project.

FCAC continues to monitor standards development as issued by the International Accounting Standards Board and the Canadian Institute of Chartered Accountants AcSB, as well as the PSAB. Such developments could affect the timing, nature or disclosure of the adoption of IFRS.

The transition to IFRS is a significant undertaking. As the design and planning phase is still in progress, FCAC is unable to quantify the impact of IFRS on its financial statements. The following table outlines the elements of FCAC's IFRS conversion plan along with an assessment of progress towards achieving these objectives. As the project progresses or further changes in regulation conditions occur, changes to the transition plan may be required.

## FCAC IFRS Changeover Plan: Assessment as at March 31, 2009

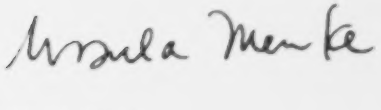
| PROJECT PHASE | MILESTONE | STATUS |
|---|---|---|
| **Diagnostic Assessment** | | |
| • Identify differences in Canadian GAAP/IFRS accounting policies | A summary of the external advisor's report presented to FCAC's Executive and Audit Committees | In progress, completion in 2009–2010. |
| **Design and Planning** | | |
| • Launch project, establish project governance<br>• Develop training and communications plan | Project structures in place | In progress, completion in 2009–2010 |
| **Assessment, Design and Development** | | |
| • Identify solutions to IFRS and evaluate<br>• Develop final solutions to IFRS | Solutions approved by FCAC's Executive and Audit Committees | To be completed in 2009–2010 |
| **Implementation** | | |
| • Rollout IFRS solutions<br>• Test and remediate | Financial systems and processes are able to capture and report IFRS information | To be completed in 2010–2011 |
| **Post Implementation Review** | | |
| • Debrief management and assess implementation<br>• Ongoing IFRS update and related changes management | Ongoing process post implementation | To be started in 2011–2012 |

# Management's Responsibility for the Financial Statements

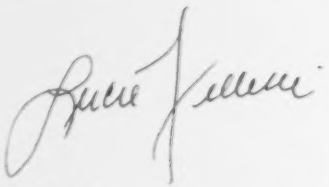
Responsibility for the integrity and objectivity of the accompanying financial statements and their consistency with all other information contained in this annual report rests with the management of the Financial Consumer Agency of Canada (FCAC).

These financial statements, which include amounts based on management's best estimates as determined through experience and judgement, have been prepared in accordance with Canadian generally accepted accounting principles for the private sector. Management has developed and maintained books of accounts, records, internal controls, management practices, and information systems designed to provide reasonable assurance that the assets are safeguarded and controlled, resources are managed economically and efficiently in the attainment of corporate objectives, and transactions are in accordance with the *Financial Administration Act* and regulations as well as with FCAC policies and statutory requirements.

The Auditor General of Canada, the independent auditor for the Government of Canada, has audited the financial statements of FCAC, and reports on her audit to the Minister of Finance.



Ursula Menke
Commissioner,
Financial Consumer Agency of Canada



Lucie Tedesco
Deputy Commissioner,
Financial Consumer Agency of Canada

Ottawa, Canada
May 29, 2009

# Auditor's Report

Auditor General of Canada
Vérificatrice générale du Canada

To the Minister of Finance

I have audited the balance sheet of the Financial Consumer Agency of Canada (Agency) as at March 31, 2009 and the statement of operations, comprehensive income and retained earnings and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Michael A. Pickup, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
May 29, 2009

Financial Consumer Agency of Canada

# Balance Sheet

**As at March 31, 2009**

| | Note | 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash Entitlement | | $ 2,389,259 | $ 923,361 |
| Assessments Receivable, net | 5 | 106,263 | 1,253,528 |
| Other Receivables | 5 | 23,039 | 18,471 |
| Other Assets | | 31,115 | 31,473 |
| **Capital Assets** | 9 | 254,879 | 376,756 |
| **TOTAL ASSETS** | | **$ 2,804,555** | **$ 2,603,589** |
| **LIABILITIES** | | | |
| **Current** | | | |
| Accounts Payable and Accrued Liabilities | 6 | $ 1,284,391 | $ 1,226,407 |
| Unearned Assessments | | 1,138,705 | 1,050,823 |
| **Employee Future Benefits** | 10 | 381,459 | 326,359 |
| **Total Liabilities** | | **2,804,555** | **2,603,589** |
| **Equity of Canada** | | — | — |
| **TOTAL LIABILITIES AND EQUITY OF CANADA** | | **$ 2,804,555** | **$ 2,603,589** |
| Contractual Obligations | 11 | | |

Approved by:

Ursula Menke
Commissioner
Financial Consumer Agency of Canada

*The accompanying notes are an integral part of these Financial Statements*

Financial Consumer Agency of Canada

# Statement of Operations, Comprehensive Income and Retained Earnings

**For the year ended March 31, 2009**

| | Note | 2009 | 2008 |
|---|---|---|---|
| **REVENUE** | | | |
| Assessments | | $ 7,626,298 | $ 6,931,811 |
| Other Revenue | | 20 | 10 |
| **Total Revenue** | | **7,626,318** | **6,931,821** |
| **EXPENSES** | | | |
| Salaries and Benefits | | 5,209,872 | 4,394,360 |
| Professional Services | | 2,563,973 | 1,704,497 |
| Accommodation | | 726,552 | 715,424 |
| Administrative and Other | | 433,133 | 466,123 |
| Information Management/Technology | | 383,766 | 340,311 |
| Travel | | 192,289 | 119,190 |
| Interest | 6 | 62,199 | 135,831 |
| **Total Expenses** | | **9,571,784** | **7,875,736** |
| **Operating Results before Government Funding and Administrative Monetary Penalties** | | **(1,945,466)** | **(943,915)** |
| Government Funding | 12 | 1,945,466 | 943,915 |
| **Operating Results before Administrative Monetary Penalties** | | — | — |
| Administrative Monetary Penalties | 14 | 50,000 | 76,000 |
| Administrative Monetary Penalties Earned on Behalf of the Government | 14 | (50,000) | (76,000) |
| **Net Operating Results and Comprehensive Income** | | — | — |
| **RETAINED EARNINGS, BEGINNING OF YEAR** | | — | — |
| **RETAINED EARNINGS, END OF YEAR** | | **$ —** | **$ —** |

*The accompanying notes are an integral part of these Financial Statements*

Financial Consumer Agency of Canada

# Statement of Cash Flows

**For the year ended March 31, 2009**

| | Note | 2009 | 2008 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash Receipts from Financial Institutions and Other Government Departments | | $ 11,155,893 | $ 8,411,892 |
| Cash Paid to Suppliers and Employees | | (9,492,626) | (8,495,014) |
| Interest Paid | 6 | (62,199) | (135,831) |
| Non-Respendable Administrative Monetary Penalties Remitted to the Consolidated Revenue Fund | 14 | (50,000) | (76,000) |
| **Cash (Used) Provided by Operating Activities** | | **1,551,068** | **(294,953)** |
| **INVESTING ACTIVITIES** | | | |
| Acquisition of Capital Assets | 9 | (85,170) | (257,701) |
| **Cash Used for Investing Activities** | | **(85,170)** | **(257,701)** |
| **FINANCING ACTIVITIES** | | | |
| New Borrowings | 8 | 4,000,000 | 4,000,000 |
| Repayments | | (4,000,000) | (4,000,000) |
| **Cash Provided by Financing Activities** | | — | — |
| **NET INCREASE (DECREASE) IN CASH ENTITLEMENT** | | **1,465,898** | **(552,654)** |
| **CASH ENTITLEMENT, BEGINNING OF YEAR** | | **923,361** | **1,476,015** |
| **CASH ENTITLEMENT, END OF YEAR** | | **$ 2,389,259** | **$ 923,361** |

*The accompanying notes are an integral part of these Financial Statements*

# Notes to the Financial Statements

**For the year ended March 31, 2009**

## 1. Authority and objectives

On October 24, 2001, the *Financial Consumer Agency of Canada Act* (the Act) came into force, establishing the Financial Consumer Agency of Canada (FCAC, or the Agency). The Financial Consumer Agency of Canada is responsible for strengthening the oversight of consumer protection measures in the federally regulated financial sector and for expanding consumer education activities. The Agency is a department of the Government of Canada and is listed in schedule I.1 of the *Financial Administration Act*.

FCAC's mandate is specifically set out in the *Financial Consumer Agency of Canada Act*. It must:

a) **supervise** financial institutions to determine whether they are in compliance with the consumer provisions applicable to them;

b) **promote** the adoption by financial institutions of policies and procedures to implement consumer provisions applicable to them;

c) **monitor** the implementation of financial institutions' publicly available voluntary codes of conduct that are designed to protect the interests of their customers, and monitor any public commitments made by financial institutions to protect the interests of their customers;

d) **promote** consumer awareness about the obligations of financial institutions under consumer provisions applicable to them; and

e) **foster** an understanding of financial services and issues relating to financial services, in cooperation with any department, agency or crown corporation of the Government of Canada, or of a province, financial institution, or consumer or other organization.

Section 18(3) of the Act provides that the Agency's costs of operations are to be assessed to the industry. Pursuant to Section 13(2) of the Act FCAC's operations are typically funded entirely through this process. FCAC is however entitled to receive a parliamentary appropriation as authorized under Section 13(3) of the Act.

FCAC's assessment revenues are charged in accordance with the *Financial Consumer Agency of Canada Assessment of Financial Institutions Regulations*, which outline the methodology used to determine each institution's assessment.

The Agency manages its working capital requirements by borrowing funds from the Government of Canada as authorized under Section 13(1) of the Act.

## 2. Change in accounting policies

### a) Adoption of new accounting standards

On April 1, 2008, FCAC adopted the following new Canadian Institute of Chartered Accountants (CICA) Handbook Sections:

Section 1535 — *"Capital Disclosures"*
This standard requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, as well as its compliance with any externally imposed capital requirements. The new standard did not have an effect on the financial position or earnings of FCAC, as it only relates to disclosure. The new disclosures are provided in note 13.

Section 3862 — *"Financial Instruments — Disclosures"* and Section 3863 — *"Financial Instruments - Presentation"*
These new standards replace accounting standard 3861 *"Financial Instruments — Disclosure and Presentation"*. Enhanced disclosure is required to assist users of the financial statements in evaluating the significance of financial instruments on FCAC's financial position and performance, including qualitative and quantitative information about FCAC's exposure to risks, including credit, interest rate, liquidity, currency and other price risks arising from financial instruments. The new accounting standards cover disclosure only and had no effect on the financial results of FCAC. The new disclosures are provided in notes 5, 7 and 8.

### b) Future accounting changes

***Goodwill, Intangible Assets and Financial Statement Concepts***

In November 2007, the CICA issued Handbook Section 3064 *"Goodwill and Intangible Assets"*, amended Handbook Section 1000 *"Financial Statement Concepts"* and withdrew Handbook Section 3450 *"Research and Development Costs"*. Handbook Section 3064 clarifies that costs may only be deferred when they relate to an item that meets the definition of an asset. Handbook Section 3064 replaces Handbook Section 3062 and provides extensive guidance on when expenditures qualify for recognition as intangible assets. The new and amended standards are effective for FCAC beginning April 1, 2009. FCAC is currently assessing the impact of this standard on its financial statements.

## 2. Change in accounting policies (continued)

**b) Future accounting changes (continued)**

***International Financial Reporting Standards ("IFRS")***

On February 13, 2008, the Accounting Standards Board (AcSB) of the CICA confirmed that the use of International Financial Reporting Standards (IFRS) will be required in 2011 for all publicly accountable Canadian reporting entities. IFRS will replace Canada's current generally accepted accounting principles for these entities that are responsible to large or diverse groups of stakeholders. FCAC will adopt IFRS commencing on April 1, 2011, with comparatives for the year commencing April 1, 2010. FCAC has commenced its initial assessment of the impact to its financial statements of adopting IFRS.

## 3. Summary of significant accounting policies

**a) Basis of presentation**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for the private sector.

**b) Cash entitlement**

FCAC does not have its own bank account. All of the financial transactions of the Agency are processed through the Consolidated Revenue Fund (CRF), a banking facility administered by the Receiver General for Canada. FCAC's cash entitlement represents the amount the Agency is entitled to withdraw from the CRF without further authority. This amount does not earn interest.

**c) Financial instruments**

The classification of financial instruments is determined by FCAC at initial recognition and depends on the purpose for which the financial assets were acquired or liabilities were incurred. All financial instruments are recognized initially at fair value. The fair value of financial instruments on initial recognition is based on the transaction price, which represents the fair value of the consideration given or received. Subsequent to initial recognition, financial instruments are measured based on the accounting treatment corresponding to their classification.

## 3. Summary of significant accounting policies (continued)

### c) Financial instruments (continued)

| Classification | Accounting Treatment |
|---|---|
| Held-for-Trading (HFT) | Cash Entitlement is classified as "Held-for-Trading".<br><br>Cash Entitlement is measured at fair value. Gains and losses arising from changes in the fair value are recorded in Operating Results before Government Funding and Administrative Monetary Penalties in the period in which they arise. |
| Loans and Receivables | Assessments Receivable, Accrued Assessments and Other Receivables are classified as "Loans and Receivables".<br><br>Loans and Receivables are non-derivative financial assets with fixed or determinable payments that are not debt securities.<br><br>Subsequent to initial recognition, Loans and Receivables are measured at amortized cost using the effective interest method. Any gain, loss or interest income is recorded in revenues or expenses depending on the nature of the loan and receivable that gave rise to the gain, loss or income. |
| Other Financial Liabilities | Accounts Payable and Accrued Liabilities and Unearned Assessments are classified as "Other Financial Liabilities".<br><br>Other Financial Liabilities are non-derivative financial liabilities that have not been designated at fair value.<br><br>Subsequent to initial recognition, Other Financial Liabilities are measured at amortized cost using the effective interest method. Any gain, loss or interest expense is recorded in revenues or expenses depending on the nature of the financial liability that gave rise to the gain, loss or expense. |

FCAC assesses at each Balance Sheet date whether there is objective evidence that a financial asset is impaired. For the classification of Loans and Receivables, any write down or impairment is recognized in the period incurred and collected in the following year through assessments.

## 3. Summary of significant accounting policies (continued)

**d) Capital assets**

All capital assets are initially recorded at acquisition cost. Amortization of capital assets is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

| Assets | Useful Life |
|---|---|
| Furniture and Fixtures | 7 years |
| Leasehold Improvements | lesser of useful life or remaining term of the lease |
| Informatics Software | 5 years |
| Office Equipment | 4 years |
| Informatics Hardware | 3 years |

**e) Employee future benefits**

**i) Pension benefits**

FCAC's eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2% per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with the Canada/Québec Pension Plan benefits and they are indexed to inflation. Supplementary retirement benefits may also be provided in accordance with the *Special Retirement Arrangements Act*.

Both the employees and FCAC contribute to the cost of the Plan. FCAC's responsibility with regard to the Plan is limited to its contributions, which are recorded in the Statement of Operations, Comprehensive Income and Retained Earnings. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor. Current legislation does not require FCAC to make contributions for any actuarial deficiencies of the Plan.

## 3. Summary of significant accounting policies (continued)

**e) Employee future benefits (continued)**

**ii) Severance benefits**

On termination of employment, employees are entitled to certain benefits provided for under their conditions of employment through a severance benefits plan. The cost of these benefits is accrued as the employees render their services necessary to earn severance benefits. These benefits represent the only obligation of FCAC that entails settlement by future payment.

The cost of severance benefits is actuarially determined as at March 31 of each year using the projected benefit method prorated on services. The valuation of the liability is based upon a current market discount rate and other actuarial assumptions, which represent management's best long-term estimates of factors such as future wage increases and employee resignation rates. The excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized over the average remaining service period of active employees.

**iii) Other future benefits**

The federal government sponsors a variety of other future benefit plans from which employees and former employees may benefit during employment or upon retirement. The Public Service Health Care Plan and the Pensioners' Dental Service Plan are the two major plans available to FCAC employees and retirees. FCAC's responsibility with regard to these two plans is limited to its contributions, which are recorded in the Statement of Operations, Comprehensive Income and Retained Earnings.

**f) Revenue recognition**

The Agency is dependent on its revenue from the assessment of financial institutions to fund its costs of operations, including those related to employee future benefits. FCAC matches its revenue to its operating costs. Any assessments that have been billed and for which costs have not been incurred are classified as Unearned Assessments on the balance sheet.

Assessments are billed annually based on an estimate of the current fiscal year's costs of operations together with an adjustment for any differences between the previous year's assessed costs and actual. The assessment process is undertaken before December 31 in each year, in accordance with Section 18(1) of the Act. As a result, at March 31 of each year, amounts may have been collected in advance of the incurrence of costs or, alternatively, funds may be owed to the Agency to fund its costs of operations.

## 3. Summary of significant accounting policies (continued)

**f) Revenue recognition (continued)**

Administrative monetary penalties may be issued by the Commissioner of the FCAC through Notices of Violations. These penalties are imposed in cases where the Commissioner believes that there has been either a violation of the consumer provisions or non-compliance with any Compliance Agreement entered into pursuant to an Act listed in Schedule 1 to the *Financial Consumer Agency of Canada Act*. The penalty amount may be as high as $50,000 for an individual and $200,000 for an institution. Penalties levied by FCAC are non-respendable and are to be remitted to the Consolidated Revenue Fund. The funds are not available to FCAC and are not included in the balance of the Cash Entitlement. As a result, the penalties do not reduce the amount that FCAC assesses the industry in respect of its operating costs.

## 4. Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items involving the use of estimates and assumptions are the benefits costs, the total severance benefits liability and the useful lives of capital assets. Actual results could significantly differ from those estimates.

## 5. Accounts receivable

As at March 31, the aging of non-related party accounts receivable was as follows (for terms and conditions relating to related party receivables, refer to note 6):

| Days Outstanding | Current | 31–60 | 61–90 | 91–120 | > 120 | Total |
|---|---|---|---|---|---|---|
| 2009 | $ — | $ — | $ — | $ 88,516 | $ 26,748 | $ 115,264 |
| 2008 | $ — | $ — | $ — | $ 1,253,528 | $ 9,000 | $ 1,262,528 |

FCAC records an allowance for doubtful accounts considering the age of an outstanding receivable and the likelihood of its collection. Provisions are also made where collection of the receivable is doubtful based on information gathered through collection efforts. An allowance is reversed once collection of the debt is successful or the amount is written off.

## 5. Accounts receivable (continued)

An account receivable will be considered to be impaired and written off when FCAC is certain that collection will not occur and all requirements of the *Debt Write-Off Regulations 1994* have been met. During the year, no interest was earned on impaired assets and none of the past due amounts has been renegotiated. Those that are neither past due nor provided for or impaired are considered to be of good quality.

At March 31, 2009 accounts receivable at initial value of $9,001 (2008: $9,000) were impaired and fully provided for. The following table provides a reconciliation of the movement in this allowance during the year:

| | 2009 | 2008 |
|---|---|---|
| **Allowance for Doubtful Accounts, beginning of year** | **$ 9,000** | **$ 14,000** |
| Additions | 1 | — |
| Amounts written off | — | — |
| Unused amounts reversed | — | (5,000) |
| **Allowance for Doubtful Accounts, end of year** | **$ 9,001** | **$ 9,000** |

The concentrations of accounts receivable as at March 31, 2009 are as follows:

| | Assessments Receivable | Other Receivables | Total | % of Total Exposure |
|---|---|---|---|---|
| Federally Regulated Financial Institutions | $ 115,264 | $ — | $ 115,264 | 83% |
| Other | — | 23,039 | 23,039 | 17% |
| | $ 115,264 | $ 23,039 | $ 138,303 | 100% |

All assessments receivable and accrued assessments are recoverable from federally regulated financial institutions. FCAC regulates over 400 financial institutions and does not have a significant receivable from any individual financial institution.

There are no Accrued Assessments that have not been billed at March 31, 2009.

## 6. Related party transactions

FCAC is related, in terms of common ownership, to all Government of Canada departments, agencies and crown corporations. The Agency has entered into service agreements with several departments and one crown corporation for the supply of key services to the Agency and its staff in carrying out its mandate. FCAC currently works with the following partners:

- Public Works and Government Services Canada (PWGSC)
- Canada Deposit Insurance Corporation (CDIC)
- the Office of the Superintendent of Financial Institutions (OSFI)

FCAC also enters into transactions with other government entities in the normal course of business and on normal trade terms applicable to all individuals and enterprises. The following table summarizes the impact of the Agency's significant related party transactions for the year on total expenses and the amounts due to (from) those related parties at the end of the year. The transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 6. Related party transactions (continued)

| Related Party and Nature of Service Provided | 2009 Expense | 2009 Payable/ (Receivable) | 2008 Expense | 2008 Payable/ (Receivable) |
|---|---|---|---|---|
| **PWGSC** | | | | |
| Accommodation | $ 455,371 | $ — | $459,837 | $ — |
| Management/ Information Technology | 52,450 | 9,807 | 37,748 | 8,453 |
| Translation Services | 155,176 | 374 | 130,095 | 24,899 |
| Other Services | 1,623 | — | 15,636 | (7,987) |
| | 664,620 | 10,181 | 643,316 | 25,365 |
| **Treasury Board** | | | | |
| Employee Benefits | 973,392 | 58,928 | 777,344 | 27,939 |
| **CDIC — Professional Services** | | | | |
| Call Centre Administration | 555,687 | — | 412,157 | — |
| **OSFI — Professional Services** | | | | |
| Financial Services | 133,724 | 3,500 | 127,355 | — |
| Human Resources Services | 114,864 | — | 125,599 | — |
| Internal Audit Services | 99,120 | 99,120 | 69,150 | 69,150 |
| Research Services | 30,000 | — | 30,000 | — |
| | 377,708 | 102,620 | 352,104 | 69,150 |
| **Statistics Canada** | | | | |
| Employee Secondment | 65,323 | — | — | 25,524 |
| Publications | — | 159 | — | — |
| **Department of Finance** | | | | |
| Interest on Loan from the Consolidated Revenue Fund | 62,199 | — | 135,831 | 10,623 |
| **Environment Canada** | | | | |
| Employee Secondment | — | (12,281) | — | — |
| **Fisheries & Oceans Canada** | | | | |
| Employee Secondment | 76,091 | 17,012 | — | — |
| **Royal Canadian Mounted Police** | | | | |
| Other Services | 1,500 | 500 | — | — |
| **Total** | **$ 2,776,520** | **$ 177,119** | **$ 2,320,752** | **$ 158,601** |

## 7. Fair value

Due to their short-term nature, the carrying value of FCAC's financial instruments is presumed to approximate their fair value.

## 8. Financial risk management

FCAC's financial liabilities include Accounts Payable and Accrued Liabilities and Unearned Assessments. The main purpose of these liabilities is to provide short-term financing for FCAC's operations. Financial assets include Assessments Receivable, Accrued Assessments and Other Receivables.

FCAC is exposed to market risk, credit risk and liquidity risk.

### a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest risk, currency risk and other price risk, such as equity risk. FCAC is exposed to currency risk on any amounts payable that are to be made to foreign jurisdictions but is not exposed to interest risk or to other price risk.

**Currency risk** is the risk that the fair value or future cash flows will fluctuate because of changes in foreign exchange rates. FCAC's exposure to the risk of changes in foreign exchange rates relates primarily to FCAC's operating activities (when revenues or expenses are denominated in a currency other than the Canadian dollar).

FCAC manages its exposure to currency risk by structuring its contracts in Canadian dollars wherever possible. The majority of FCAC's transactions during the fiscal year were denominated in Canadian dollars; as such, FCAC's exposure to currency risk as at March 31, 2009 is insignificant.

There is no impact to revenues since all billings are done in Canadian dollars.

### b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. FCAC's exposure to the risk of market interest rates relates primarily to FCAC's loans payable with floating interest rate as determined by the Department of Finance. As all amounts borrowed are required to be repaid by March 31 of any fiscal year, FCAC is not exposed to interest rate risk at the year end date. FCAC attempts to reduce the borrowings necessary by effectively forecasting its required cash flows from assessments from financial institutions. FCAC is not authorized to enter into any arrangements in order to reduce its exposure to interest rate risk.

## 8. Financial risk management (continued)

### b) Interest rate risk (continued)

The table below demonstrates the sensitivity to FCAC's operating expenses of a one percentage point fluctuation in market interest rates, with all other variables held constant.

| | Fluctuation in Interest Rate | Effect on Expenses |
|---|---|---|
| 2009 | + 1% | $ 22,192 |
| | - 1% | (22,192) |
| 2008 | + 1% | $ 30,575 |
| | - 1% | (30,575) |

### c) Credit risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument, leading to a financial loss. The maximum exposure FCAC has to credit risk is $138,303 which is in relation to its Assessments Receivable, Accrued Assessments and Other Receivables.

All federally regulated financial institutions are required to register with FCAC and pay the assessments as established by FCAC. Any loss incurred by FCAC as a result of a counterparty not meeting its obligations is recorded in the year incurred and collected in the following year, as outlined in the FCAC Act. All remaining receivables are with other government organizations, where there is minimal potential risk of loss. FCAC does not hold collateral as security.

### d) Liquidity risk

Liquidity risk is the risk that FCAC will encounter difficulty in meeting obligations associated with financial liabilities. FCAC's objective is to maintain sufficient Cash Entitlement through collection of assessments and fees in order to meet its operating requirements. FCAC manages liquidity risk through a detailed annual planning and billing process which is structured to allow for sufficient liquidity from one billing period to the next. FCAC's objective is to accurately estimate its operating costs for the year in order to accurately estimate the assessments and fees to collect from federally regulated financial institutions.

## 8. Financial risk management (continued)

### d) Liquidity risk (continued)

The table below summarizes the maturity profile of FCAC's financial liabilities at March 31, 2009 based on contractual undiscounted payments.

| | On Demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Greater than 5 years | Total |
|---|---|---|---|---|---|---|
| Accounts Payable and Accrued Liabilities | $ 217,937 | $ 859,334 | $ 207,120 | $ — | $ — | $ 1,284,391 |
| Unearned Assessments | — | — | 1,138,705 | — | — | 1,138,705 |
| **Total** | **$ 217,937** | **$ 859,334** | **$ 1,345,825** | **$ —** | **$ —** | **$ 2,423,096** |

By December 31 of each year, the Commissioner must determine the total expenses incurred by the Agency during the preceding fiscal year for, or in connection with, the administration of the Financial Consumer Agency of Canada Act and the consumer provisions. The Commissioner then assesses each federally regulated financial institution a portion of these expenses, as determined by regulation. Interim assessments are also possible. To temporarily fund expenses until institutions are assessed, before March 31 of each year, the Agency must seek Ministerial authority to borrow from the Consolidated Revenue Fund, for the next fiscal year, up to a predetermined limit. The authority to borrow from the Consolidated Revenue Fund is granted under section 13 of the Financial Consumer Agency of Canada Act. For the year ended March 31, 2009 the Minister has approved up to $8,000,000 (2008: $8,000,000). All amounts borrowed during any fiscal year, must be repaid at the end of the fiscal year. The Agency pays interest on the funds borrowed as described under "Interest Risk".

Refer to note 1 for further information on FCAC's authority.

## 9. Capital assets

| | Gross Book Values | | | Accumulated Amortization | | | Net Book Values | |
|---|---|---|---|---|---|---|---|---|
| **Categories** | **Opening balance** | **Additions** | **Closing balance** | **Opening balance** | **Amortization expense** | **Closing balance** | **2009** | **2008** |
| Furniture and Fixtures | $ 597,682 | $ — | $ 597,682 | $ 413,454 | $ 63,782 | $ 477,236 | $ 120,446 | $ 184,228 |
| Leasehold Improvements | 519,304 | — | 519,304 | 429,926 | 89,378 | 519,304 | — | 89,378 |
| Informatics Software | 91,075 | 40,488 | 131,563 | 86,820 | 8,293 | 95,113 | 36,450 | 4,255 |
| Office Equipment | 58,928 | 12,338 | 71,266 | 55,749 | 2,074 | 57,823 | 13,443 | 3,179 |
| Informatics Hardware | 129,143 | 32,343 | 161,486 | 33,427 | 43,519 | 76,946 | 84,540 | 95,716 |
| **Total** | **$ 1,396,132** | **$ 85,169** | **$ 1,481,301** | **$ 1,019,376** | **$ 207,046** | **$ 1,226,422** | **$ 254,879** | **$ 376,756** |

## 10. Employee future benefits

**a) Pension benefits**

FCAC and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The estimated employer contributions to the Public Service Pension Plan during the year were $475,611 (2008: $401,828).

As required under present legislation, the contributions made by FCAC to the Plan are 1.91 times the employees' contribution on amounts of salaries of $136,700 or less and 7.55 times the employees' contribution on amounts of salaries in excess of $136,700.

## 10. Employee future benefits (continued)

### b) Severance benefits

Information about FCAC's severance benefit plan is presented in the table below.

| | 2009 | 2008 |
|---|---|---|
| **Accrued Benefit Obligation, beginning of year** | **$ 391,556** | **$ 365,928** |
| Current service cost | 49,361 | 43,812 |
| Interest cost | 17,401 | 16,479 |
| Benefits paid | (13,591) | (201) |
| Actuarial gain | (19,398) | (34,462) |
| **Accrued Benefit Obligation, end of year[1]** | **425,329** | **391,556** |
| Unamortized Net Actuarial Loss | (43,870) | (65,197) |
| **Accrued Benefit Liability** | **$ 381,459** | **$ 326,359** |
| | | |
| **Net Benefit Plan Expense** | | |
| Current service cost | $ 49,361 | $ 43,812 |
| Interest cost | 17,401 | 16,479 |
| Amortization of net actuarial losses[2] | 1,929 | 4,778 |
| **Net Benefit Plan Expense** | **$ 68,691** | **$ 65,069** |

[1] The cost corresponding to annual changes in the accrued benefit liability is recovered from FCAC's revenue from assessments outlined in note 3f) to the financial statements. Amounts collected in excess of benefits paid are presented on the Balance Sheet under the heading of Cash Entitlement.

[2] The amortization period is the remaining average service period of active employees.

A discount rate of 4.0% (2008: 4.25%) was applied in measuring the Agency's accrued benefit obligation. Management's best estimate for the general salary increases used to estimate the current service cost and the accrued benefit obligation as at March 31, 2009 is an annual economic increase of 1.5% for the plan years 2010 to 2012 inclusively (2008: 2.5% for the plan year 2009). Thereafter an annual economic increase of 2.0% (2008: 2.0%) is assumed. The average remaining service period of the active employees covered by the benefit plan is 14 years (2008: 14 years).

## 11. Contractual obligations

Contractual obligations arising from service agreements entered into with various departments and one Crown corporation for the supply of key services to the Agency, as well as future minimum lease payments for the remaining term of the Agency's lease for office space are outlined below.

| Year ending March 31 | Service agreements | Operating lease | Total |
|---|---|---|---|
| 2010 | $ 724,819 | $ 469,972 | $ 1,194,791 |
| 2011 | 698,995 | — | 698,995 |
| 2012 | 707,977 | — | 707,977 |
| 2013 | 674,147 | — | 674,147 |
| 2014 | 688,954 | — | 688,954 |
| **Total** | **$ 3,494,892** | **$ 469,972** | **$ 3,964,864** |

## 12. Government funding

Effective 2007–2008, FCAC is entitled to receive a parliamentary appropriation as authorized under Section 13(3) of the Act. The funding is to develop and share instructional materials for financial literacy education programs, particularly directed towards young adults, and to facilitate the dissemination of these materials and information through financial education providers. During 2008–2009, FCAC received an appropriation of $1,945,466 (2008: $943,915).

## 13. Capital management

FCAC includes Contributed Surplus and Accumulated Deficit, collectively entitled "Equity of Canada", in its definition of capital.

| | 2009 | 2008 |
|---|---|---|
| Equity of Canada | $ — | $ — |

FCAC operates on a cost recovery basis. Its objective when managing capital is to closely manage actual costs to those estimated and communicated to its paying stakeholders. FCAC is prohibited from issuing its own capital or its own debt to meet any capital requirements. Any operating shortfall or excess is factored into the assessments charged to regulated entities in the following year. FCAC fully recovered all of its costs incurred in the year.

FCAC is not subject to any externally imposed capital requirement.

## 14. Administrative monetary penalties

Administrative monetary penalties levied by FCAC are non-respendable and are to be remitted to the Consolidated Revenue Fund. The funds are not available to FCAC and are not included in the balance of the Cash Entitlement. As a result, the penalties do not reduce the amount that FCAC assesses the industry in respect of its operating costs.

FCAC levied $50,000 (2008: $76,000) in administrative monetary penalties during fiscal year 2008–2009.

## 15. Comparative figures

Certain 2008 comparative figures have been reclassified to conform to the presentation adopted in 2009.

# How to Reach Us

***We welcome your questions and feedback. FCAC offers a variety of publications, information and interactive tools for consumers.***

| | |
|---|---|
| **Corporate website** | fcac.gc.ca |
| **Financial education website** | themoneybelt.gc.ca |
| **Telephone (toll-free)**<br>(Consumer Contact Centre)<br>From the Ottawa area or from outside Canada | 1-866-461-3222<br><br>613-996-5454 |
| **TTY (toll-free)**<br>(for persons with hearing impairment)<br>From the Ottawa area or from outside Canada | 1-866-914-6097<br><br>613-947-7771 |
| **Fax (toll-free)**<br>From the Ottawa area or from outside Canada | 1-866-814-2224<br>613-941-1436 |
| **E-mail** | info@fcac.gc.ca |
| **Postal address** | Financial Consumer Agency of Canada<br>Enterprise Building, 6th Floor<br>427 Laurier Avenue West<br>Ottawa, Ontario K1R 1B9 |

Catalogue No. FC1-2009
ISBN: 978-1-100-50094-2



50% recycled
with 25% post consumer fibre